

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

LANSING HOUSING COMMISSION

Financial Statements

June 30, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

## TABLE OF CONTENTS

	<u>Page</u>
Management Discussion and Analysis	i
Independent Auditor's Opinion	ii
<u>FINANCIAL STATEMENTS</u>	
Combined Balance Sheet	2
Combined Statement of Income and Expenses	3
Combined Statement of Cash Flows	4
Notes to Financial Statements	5
<u>SUPPLEMENTAL DATA</u>	
Combining Balance Sheet	13
Combining Statement of Income and Expenses	14
Schedule of Expenditures of Federal Awards	15
Status of Prior Audit Findings	17
Report on Compliance Applicable with Requirements to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	18
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	20
Schedule of Findings and Questioned Cost	21
Tenant Accounting Discrepancies-Public Housing	23
Tenant Accounting Discrepancies-Section 8 Program	24

## **LANSING HOUSING COMMISSION**

The Lansing Housing Commission's management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Commission's financial activity, (c) identify changes in the Commission's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns. The management discussion and analysis should be read in conjunction with the auditor's opinion letter and the financial statements.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commission's Executive Director or the Financial Manager.

### **Entity-Wide Statements**

These statements include a Statement of Net Assets, which is similar to a Balance Sheet.

The Statement is presented in a format where assets, minus liabilities, equals "Net Assets", formerly known as equity. The Statement of Revenues, Expenses and Changes in Fund Net Assets (similar to an Income Statement). The Statement of Cash Flows is also included, which discloses net cash provided by, or used for operating activities, non-capital financing activities and from capital and related financing activities.

The combined financial statements show, in one place, all of the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method all revenues and expenses relating to the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

### **Fund Financial Statements**

The Financial Data Schedule reports the Commission's operations in more detail. The Commission consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. This method of accounting is similar to accounting used by the private sector.

### **Entity-Wide Financial Highlights**

The Commission was awarded the following Federal Assistance:

	<u>Year 2004</u>	<u>Year 2003</u>
Operating Subsidies	\$1,727,978	\$ 1,818,000
Capital Fund Programs	1,750,738	2,806,000
Section 8 Vouchers	6,866,885	7,306,000
Section 8 New Construction	447,114	434,000
Drug Elimination Grants	98,528	150,205

### Combined Balance Sheet (condensed)

	2004 (millions of dollars)	2003 (millions of dollars)
Current Assets	\$ 5.81	\$ 6.35
Non Current Assets	<u>19.01</u>	<u>19.49</u>
	24.82	25.84
Current Liabilities	1.06	.91
Non Current Liabilities	<u>0.13</u>	<u>0.12</u>
	1.19	1.03
Net Assets	<u>23.63</u>	<u>24.81</u>

### Major Factors Affecting the Combined Balance Sheet

The decrease in Current Assets is due to monies drawn down for Operations from the Capital Fund was less than the prior year. Also last year Section 8 had a \$526,000 receivable due from HUD. This year the Commission has a liability due to HUD for \$52,684. This also resulted in an increase in Current Liabilities.

### Capital Assets

At year end, the Lansing Housing Commission had over \$19 million invested in capital assets as reflected in the following schedule.

	2004	2003
Land	\$ 1,477,718	\$ 1,481,475
Buildings	39,979,565	38,408,329
Furniture, Equipment-Dwellings	550,443	565,095
Furniture, Equipment-Administrative	984,785	931,492
Construction in Progress	2,731,855	3,103,429
Accumulated Depreciation	<u>(26,709,556)</u>	<u>(25,007,697)</u>
Total	19,014,810	19,487,663

This years major additions are:

Capital Improvements Projects that are still in progress are renovations at LaRoy Froh and exterior renovations at Mt. Vernon, Hildebrandt, Forest and Hoyt.	\$2,556,698
Equipment Purchases	55,549

Combined Statement of Income and Expenses (condensed)

The following schedule compares the revenues and expenses for the current and previous fiscal year.

	2004 (millions of dollars)	2003 (millions of dollars)
Revenues		
Tenant Rental Revenue and Other	\$ 1.64	\$ 1.75
HUD Grants	11.02	12.52
Interest Income	.04	.05
Other Income	<u>.31</u>	<u>.43</u>
Total Revenue	13.01	14.75
Expenses		
Administrative	2.40	2.44
Tenant Services	.01	.026
Utilities	.78	.75
Ordinary Maintenance	2.02	1.99
Protective Services	.01	.01
General Expenses	.39	.39
Loss on the Sale of Fixed Assets	.001	.02
Extra Ordinary Maintenance	.01	.01
Housing Assistance Payments	6.74	6.96
Depreciation	<u>1.79</u>	<u>1.76</u>
Total Expenses	<u>14.15</u>	<u>14.36</u>
Net Income (Loss)	<u>(1.14)</u>	<u>.39</u>

Major Factors Affecting the Combined Statement of Revenue and Expenses (condensed)

Rent Revenue is down due to a 5% drop in the average rent per unit. HUD Grants decreased due to less money being available for capital improvements. Section 8 Vouchers leased up rate was 92% resulting in less Housing Assistance Payments and Administrative Fees.

Most expenses showed moderate fluctuations either up or down. Total expenses decreased 2% compared to last year. Housing Assistance Payments decreased 3%.

## General Fund Budgetary Highlights-Public Housing

	Budget	Actual	Variance
Dwelling Rent	1,650,000	1,635,728	14,272
HUD Subsidy	1,727,978	1,727,978	
Other Revenue	<u>668,888</u>	<u>558,243</u>	<u>110,645</u>
Total Operating Receipts	4,046,866	3,921,949	124,917
Operating Expenditures			
Administrative	923,106	929,257	(6,151)
Tenant Services	27,850	9,670	18,180
Utilities	767,000	773,923	(6,923)
Maintenance	1,581,471	1,646,591	(65,120)
Protective Services	10,000	14,219	(4,219)
General	1,009,000	1,009,716	(716)
Other	<u>110,000</u>	<u>153,945</u>	<u>43,945</u>
Total Operating Expenses	<u>4,428,427</u>	<u>4,537,321</u>	<u>(108,894)</u>
Operating Income (Loss)	<u>(381,561)</u>	<u>(615,372)</u>	<u>233,811</u>

Total Operating Receipts fell about 3% short of the budget. Rent revenue was down from the prior year. Other revenue was less due to over estimating the amount of operations money received from the 2003 Capital Fund. Maintenance materials was \$66,000 over budget, driven by increased costs. Plus the average cost for the last two years was \$382,000 versus the budget of \$300,000.

Other expenses were affected by purchases made for capital assets from the Capital Fund 2003 Operations money, but not budgeted for. Total Operating Expenses were greater than the amounts budgeted by \$108,894.

## Economic Factors

Over time economic factors affect changes in the Commission's net assets and are an indicator of whether it is financially improving or deteriorating. Readers need to consider other non-financial factors such as changes in family composition, local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income. HUD mandated program administrative changes, the physical condition of the Commission's capital assets, inflationary pressure on utility rates and supplies also need to be considered to assess the overall financial health of the Commission.

***John C. DiPiero, P.C.***

Certified Public Accountant

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Hemlock, Michigan 48626  
Tel / Fax (989) 642-2092

Board of Commissioners  
Lansing Housing Commission  
310 Seymour  
Lansing, Michigan 48933

### **Independent Auditor's Report**

I have audited the financial statements listed in the Table of Contents of the Lansing Housing Commission as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lansing Housing Commission as of June 30, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated September 3, 2004 on my consideration of the Lansing Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

### **Required Supplemental Information**

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

### **Combining Financial Statements**

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

September 3, 2004

LANSING HOUSING COMMISSION  
Combined Balance Sheet  
June 30, 2004

ASSETS

C-3007

CURRENT ASSETS

Cash & Cash Equivalents	\$ 3,723,211
Accounts Receivable (Net)	40,755
Accounts Receivable- Other	418,705
Investments	821,555
Prepaid Expenses & Inventory (Net)	257,434
Inter Program due from	<u>551,207</u>

Total Current Assets	\$ 5,812,867
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NON CURRENT ASSETS

Land	\$ 1,477,718
Buildings	38,866,860
Infrastructure	1,112,705
Furniture, Equipment- Dwellings	550,443
Furniture, Equipment- Administrative	984,785
Leasehold Improvements	2,731,855
Accumulated Depreciation	<u>(26,709,556)</u>

Total Non Current Assets	<u>19,014,810</u>
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TOTAL ASSETS

\$ 24,827,677

LANSING HOUSING COMMISSION  
Combined Balance Sheet  
June 30, 2004

**LIABILITIES & EQUITY**

**C-3007**

**LIABILITIES:**

**CURRENT LIABILITIES**

Accounts Payable	\$ 172,533
Accrued Liabilities	53,128
Accounts Payable- HUD	52,684
Accounts Payable- Other Government	71,007
Compensated Absences	33,113
Tenants Security Deposit	100,942
Deferred Revenue	21,665
Inter-Program due to	<u>551,207</u>

Total Current Liabilities \$ 1,056,279

**NONCURRENT LIABILITIES**

Compensated Absences 132,453

Total Liabilities \$ 1,188,732

**EQUITY:**

Investment in Fixed Assets net of Related Debt	\$ 19,014,811
Retained Earnings	<u>4,624,134</u>

Total Equity \$ 23,638,945

TOTAL LIABILITIES & EQUITY \$ 24,827,677

The Accompanying Footnotes are an Integral Part of the Financial Statements.

LANSING HOUSING COMMISSION  
Combined Statement of Income and Expenses  
For the year ended June 30, 2004

REVENUE

Tenant Rental Revenue	\$ 1,643,094
Tenant Revenue- Other	1,815
HUD Grants	11,015,162
Interest Income	42,002
Other Income	<u>306,412</u>

<u>Total Revenue</u>	\$ 13,008,485
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EXPENSES

Administrative	\$ 2,403,252
Tenant Services	9,670
Utility Expenses	775,169
Ordinary Maintenance	2,019,135
Protective Services	14,219
General Expenses	<u>386,100</u>

<u>Total Expenses</u>	<u>5,607,545</u>
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<u>Excess (Deficiency) of Revenues over Expenses</u>	\$ 7,400,940
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OTHER DEDUCTIONS

Loss on the Sale of Fixed Assets	\$ 2,833
Extra Ordinary Maintenance	10,272
Housing Assistance Payments	6,742,745
Depreciation Expenses	<u>1,792,122</u>

<u>Total Other Deductions</u>	<u>8,547,972</u>
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<u>Change in Net Assets</u>	\$ <u>(1,147,032)</u>
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Total Net Assets- Beginning	24,803,507
Prior Period Adjustment: HUD Adjusted Funding	
Housing Choice Program	<u>(17,530)</u>
Adjusted Beginning Balance	\$ <u>24,785,977</u>
 Total Net Assets- Ending	 \$ <u>23,638,945</u>

The Accompanying Footnotes are an Integral Part of the Financial Statements.

LANSING HOUSING COMMISSION  
Combined Statement of Cash Flows  
For the Year Ended June 30, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 1,644,073
Payments to Suppliers	(9,998,108)
Payments to Employees	(1,729,378)
HUD Grants	11,015,162
Other Receipts (Payments)	<u>345,581</u>
Net Cash Provided (Used) by Operating Activities	\$ 1,277,330

CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(1,626,762)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (349,432)
Cash Balance- Beginning of Year	<u>4,072,643</u>
Cash Balance- End of Year	\$ <u>3,723,211</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (1,147,032)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	1,792,122
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	579,086
Investments	(67,340)
Prepaid Expenses	34,054
Interfund Due From	(70,605)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	48,738
Accrued Liabilities	8,083
Account Payable- HUD	12,086
Accounts Payable-Other Governments	(6,518)
Accrued Compensated Absences	18,818
Security Deposits	589
Deferred Revenue	4,644
Interfund Due To	<u>70,605</u>
Net Cash Provided by Operating Activities	\$ <u>1,277,330</u>

The Accompanying Notes are an Integral part of the Financial Statements

LANSING HOUSING COMMISSION  
Notes to Financial Statements  
June 30, 2004

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

Lansing Housing Commission, Lansing, Michigan, (Commission) was created by ordinance of the city of Lansing. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 58-2-12, 15	Low rent program	834 units
MI 33-V058-6, 15	Section 8 Vouchers	1390 units
MI 28-8023-1	New Construction	100 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, a component unit is reported.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## Notes to Financial Statements- continued

### Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1999, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

### Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

### Assets, Liabilities, and Net Assets-

#### Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

## Notes to Financial Statements- continued

### Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

### Inventory

Inventory is valued at average cost. The Commission uses a weighted average price of remaining inventory to value the remaining stock.

Inventory consist of expendable supplies held for consumption. The cost of supplies is recorded as an expenditure at the time the inventory is consumed.

### Due to/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods or services; these receivables and payables are classified as "due from" or "due to" other funds on the Balance Sheet.

### Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

### Compensated Absences

Compensated absences are for unused vacation days, personal leave days, and accumulated compensation time, based on total accumulation of time at current rates of compensation. Financial Accounting Standards Board (FASB) # 43 establishes proper generally accepted accounting principles (GAAP) concerning such accruals. The following criteria must be met:

- 1) Employee's right to compensation is attributable to past performance.
- 2) The right to compensation is vested or accumulates.
- 3) It is probable that the compensation will be paid.
- 4) The amount is reasonably estimable.

Notes to Financial Statements- continued

The Commission accrued a percentage of the above based on an analysis of past retirements and current potential using the above criteria.

The estimated portion of the liability for vested leave benefits attributable to the Commission is recorded as an expenditure and liability in each of the respective programs.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 543,495
Security Deposit Checking	10,918
Investments- Cash Equivalents	3,166,534
Petty Cash	<u>2,264</u>
Financial Statement Total	\$ <u>3,723,211</u>

Investments:

Certificates of Deposit	\$ 700,000
Certificates of Deposit-Security Deposits	100,000
Savings Account	3,188,089
Less: Cash Equivalents, above	<u>(3,166,534)</u>
Financial Statement Total	\$ <u>821,555</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

<u>Categories</u>					
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash:					
Checking A/C's	\$ 554,413	\$	\$	\$ 554,413	\$ 554,413
Petty Cash	2,264			2,264	2,264
Cash Equivalents	<u>3,166,534</u>	<u></u>	<u></u>	<u>3,166,534</u>	<u>3,166,534</u>
Total Cash	\$ <u>3,723,211</u>	\$ <u></u>	\$ <u></u>	\$ <u>3,723,211</u>	\$ <u>3,723,211</u>

Notes to Financial Statements- continued

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Investments:					
Money market	\$ 3,188,089	\$		\$ 3,188,089	\$ 3,188,089
C/D's	800,000			800,000	800,000
Cash Equivalents above	<u>(3,166,534)</u>			<u>(3,166,534)</u>	<u>(3,166,534)</u>
Total Investments	\$ <u>821,555</u>	\$	\$	\$ <u>821,555</u>	\$ <u>821,555</u>

Note 3: Accounts Receivable

Accounts Receivable Tenants consist of the following:

Accounts Receivable	\$ 50,755
Allowance for Doubtful Accounts	<u>(10,000)</u>
	\$ <u>40,755</u>

Accounts Receivable Other consist of the following:

Account Receivable HUD	\$ 350,818
Accounts Receivable- Miscellaneous	53,524
Accrued Interest Receivable	<u>14,363</u>
	\$ <u>418,705</u>

Note 4: Prepaid Expenses

Prepaid expenses consist primarily of unexpired insurance premiums and inventory. Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of expendable supplies held for consumption and expendable equipment stored pending issuance to projects as needed.

Prepaid Insurance	\$ 42,764
Inventory	218,070
Allowance for Obsolescence	<u>(3,400)</u>
	\$ <u>257,434</u>

Notes to Financial Statements- continued

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 1,458,584	\$ 19,134	\$	\$ 1,477,718
Buildings	38,408,329	1,418,531	960,000	38,866,860
Furniture & Equipment-Dwellings	553,734		3,291	550,443
Furniture & Equipment-Admin	942,853	41,932		984,785
*Infrastructure	5,540	1,107,165		1,112,705
Leasehold Improvements	<u>3,103,429</u>	<u></u>	<u>371,574</u>	<u>2,731,855</u>
	\$44,472,469	\$2,586,762	\$1,334,865	\$45,724,366
Less Accumulated Depreciation	<u>25,007,697</u>	<u>1,792,122</u>	<u>90,263</u>	<u>26,709,556</u>
	<u>\$19,464,772</u>	<u>\$ 794,640</u>	<u>\$1,244,602</u>	<u>\$19,014,810</u>

\* \$ 960,000 in building cost was reclassified as infrastructure in the current year.

Note 6: Accrued Liabilities

Accrued liabilities consists of the following:

Accrued Wages & Benefits	\$ 52,443
Accrued Liabilities- Miscellaneous	<u>685</u>
	<u>\$ 53,128</u>

Note 7: Pension Plan

During 1989, the Commission transferred its plan assets and accumulated benefits from the Employees' Retirement System Defined Benefit Plan administered by the City of Lansing to the Michigan Municipal Employees Retirement System (MERS), an agent for multiple-employer public employee retirement systems that acts as a common investment and administrative agent for municipalities within the state of Michigan.

FUNDING STATUS AND PROGRESS

The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27. Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1998.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2003 actuarial valuation. The entry age normal actuarial method was used to determine the entries at disclosure.

Notes to financial statements- continued

GASB 25 INFORMATION  
as of December 31, 2003

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 2,425,340
Terminated employees not yet receiving benefits	158,341
Current employees -	
Accumulated employee contributions including allocated investment income	21,644
Employer Financed	<u>2,969,568</u>
Total Actuarial Accrued Liability	\$ 5,574,893
Net Assets Available for Benefits at Actuarial Value	<u>5,656,033</u>
(Market Value is \$ 5,164,568)	
Unfunded (Over funded) Actuarial Accrued Liability	\$ (81,140)

GASB 27 INFORMATION  
as of December 31, 2003

Fiscal Year Beginning	July 1, 2005
Annual Required Contribution (ARC)	\$ 162,108*
Amortization Factor Used - Underfunded Liabilities (30 years)	0.053632
Amortization Factor Used - Overfunded Liabilities (10 years)	0.119963

\* Based on valuation payroll, but the actual required contribution will be based on current monthly payroll (during the fiscal year beginning July 1, 2005) times the computed employer contribution rate(s) shown in tables 15 and 16 of the Municipal Employees' Retirement System of Michigan, Annual Actuarial Valuation dated December 31, 2003.

Note 8: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Notes to Financial Statements- continued

Note 9 :Segment Information for Enterprise Funds.

The Commission maintains an enterprise fund; segment information for the year ended June 30, 2004, is as follows:

Operating Revenue	\$ 13,008,485
Operating Income	7,400,940
Non Operating Revenue (Expenses)	
Extra Ordinary Maintenance	(10,272)
Loss on the Sale of Fixed Assets	(2,833)
Depreciation Expense	(1,792,122)
Housing Assistance Payments	(6,742,745)
Net Profit (Loss)	(1,147,032)
Non Current Assets (net)	19,014,810
Total Assets	24,827,677
Retained Earnings	4,624,134

Note 10:Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 65,130,000
General Liability	5,000,000
Errors & Omissions	1,000,000
Automobile	1,000,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

LANSING HOUSING COMMISSION  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3007 Operating Subsidies	\$ <u>1,727,978</u>
* <u>CFDA 14.872 Capital Projects Funds</u>	
C-3007 Capital Projects Funds	\$ <u>1,750,738</u>
* <u>CFDA 14.855 Housing Choice Vouchers</u>	
C-3118V Section 8 Housing Choice Vouchers	\$ <u>6,866,885</u>
<u>CFDA 14.854 Other Grants</u>	
C-3007 Drug Elimination Grant	\$ <u>98,528</u>
* <u>CFDA 14.182 Lower Income Housing Assistance</u>	
C-3015 Section 8 New Construction	\$ <u>447,114</u>
<u>CFDA 14.238 Supportive Service</u>	
C-3007 Shelter Plus Care	\$ <u>123,919</u>
	\$ <u>11,015,162</u>

\*Connotes Major Program Category

### Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

### Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 65,130,000
General Liability	5,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Status of Prior Audit Findings  
June 30, 2004

The prior audit of the Lansing Housing Commission for the period ended June 30, 2003, contained no audit findings:

Report on Compliance Applicable with Requirements to  
Each Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133  
June 30, 2004

Compliance

I have audited the compliance of Lansing Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Lansing Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lansing Housing Commission's management. My responsibility is to express an opinion on Lansing Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lansing Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Lansing Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Public Housing:		
Tenant Accounting Discrepancies	04-1	Activities Allowed or unallowed; Program Income
Section 8 Housing Choice:		
Tenant Accounting Discrepancies	04-2	Activities Allowed or unallowed; Program Income

paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

#### Internal Control over Compliance

The management of Lansing Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Lansing Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

September 3, 2004

Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with  
Government Auditing Standards  
June 30, 2004

I have audited the financial statements of Lansing Housing Commission, Lansing, Michigan, as of and for the year ended June 30, 2004, and have issued my report thereon dated September 3, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lansing Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Lansing Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any instances which may be considered weaknesses that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

September 3, 2004

LANSING HOUSING COMMISSION  
Schedule of Findings and Questioned Cost  
June 30, 2004

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Capital Projects Fund	X	
Housing Choice Voucher Program	X	
Lower Income Housing Assistance	X	
Drug Elimination Grant		X
Shelter Plus Care		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ <u>X</u> No
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Reportable condition(s) noted	_____ Yes	_____ <u>X</u> No
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Non Compliance material to financial statements noted	_____ Yes	_____ <u>X</u> No
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Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ <u>X</u> No
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Reportable condition(s) noted	_____ <u>X</u> Yes	_____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ <u>X</u> No
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Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Public and Indian Housing	Yes	No	04-1
Capital Projects Fund	Yes	No	N/A
Housing Choice Voucher Program	Yes	No	04-2
Drug Elimination Grant	No	No	N/A
Lower Income Housing Assistance	Yes	No	N/A
Shelter Plus Care	No	No	N/A

June 30, 2004

The following findings of the Lansing Housing Commission, for the year ended June 30, 2004, was discussed with the Executive Director, Mr. Chris Stuchell, in an exit interview conducted September 3, 2004.

Finding 04-1:

Tenant Accounting Discrepancies, Public Housing Program.

Out of 19 files tested the following discrepancies were discovered:

- 1 file did not utilize the income set aside.
- 1 file did not have required citizenship forms.
- 1 file lacked third party income verification.
- 8 files did not include required rent election forms.

Recommendation

HUD requires the above verifications and documentation in tenant files; non compliance with the above requirements could result in miscalculated rents.

I would recommend the Commission review the recertification process to insure compliance with HUD requirements.

Reply

These deficiencies have either been corrected or will be corrected within 30 days.

Tenant Accounting Discrepancies, Section 8 Program.

Out of 27 files tested the following discrepancies were discovered:

- 1 file did not have a signed lease.
- 3 files used the wrong payment standard.
- 5 files lacked third party income verification.
- 2 files did not have inspections reports.

Recommendation

HUD requires the above verifications and documentation in tenant files; non compliance with the above requirements could result in miscalculated rents.

I would recommend the Commission review the recertification process to insure compliance with HUD requirements.

Reply

These deficiencies have either been corrected or will be corrected within 30 days.